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DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

[Docket No. FR-5618-N-01]

**Section 8 Housing Assistance Payments Program-
Fiscal Year (FY) 2012 Inflation Factors for Public Housing Agency (PHA) Renewal
Funding**

AGENCY: Office of the Assistant Secretary for Policy Development and Research, HUD.

ACTION: Notice.

SUMMARY: The FY 2012 HUD Appropriations Act requires that HUD apply “an inflation factor as established by the Secretary, by notice published in the Federal Register” to adjust FY 2012 renewal funding for the tenant-based rental assistance voucher program or housing choice voucher (HCV) program of each PHA. For FY 2011 and FY 2010, renewal funding was based on annual adjustment factors (AAFs) and HUD published separate Renewal Funding AAFs for this purpose. The Renewal Funding AAFs, based only on Consumer Price Index (CPI) data for rents and utilities, have been replaced by inflation factors that incorporate additional economic indices to measure the expected change in the per unit cost (PUC) for the HCV program.

EFFECTIVE DATE: [INSERT DATE OF PUBLICATION IN THE FEDERAL REGISTER]

FOR FURTHER INFORMATION CONTACT: Michael S. Dennis, Director, Housing Voucher Programs, Office of Public Housing and Voucher Programs, Office of Public and Indian Housing, telephone number 202-708-1380; or Geoffrey Newton, Economist, Economic and Market Analysis Division, Office of Policy Development and Research, telephone number 202-402-6058, for technical information regarding the development of the schedules for specific areas or the methods used for calculating the inflation factors, Department of Housing and Urban

Development, 451 7th Street, SW, Washington, DC 20410. Hearing- or speech-impaired persons may contact the Federal Relay Service at 800-877-8339 (TTY). (Other than the "800" TTY number, the above-listed telephone numbers are not toll free.)

SUPPLEMENTARY INFORMATION:

I. Background

Tables showing Renewal Funding Inflation Factors will be available electronically from the HUD data information page at:

http://www.huduser.org/huduser/datasets/rfif/FY2012/FY2012_IF_Table.pdf.

In prior years, the Department of Housing and Urban Development has been using Renewal Funding AAFs based on Consumer Price Index data published by the Bureau of Labor Statistics on “rent of primary residence” and “fuels and utilities” as the inflation factor to calculate the renewal funding for each PHA. During this period, HUD has undertaken several projects to better understand the drivers of the annual change in housing subsidy costs for the tenant-based voucher program. The Consolidated and Further Continuing Appropriations Act, 2012 (Title II, of Division C, Public Law 112-55, approved November 18, 2011) provides that the HUD Secretary shall, for the calendar year 2012 funding cycle, provide renewal funding for each public housing agency (PHA) based on validated voucher management system (VMS) leasing and cost data for the prior calendar year and by applying an inflation factor as established by the Secretary, by notice published in the Federal Register. This Notice provides the inflation factors (that were announced to PHAs on March, 1, 2012) and describes the methodology for calculating them.

II. Methodology

The Department has focused on measuring the change in average PUC as captured in HUD's administrative data in VMS. In order to predict the likely path of PUC over time, HUD has implemented a model that uses several economic indices that capture key components of the economic climate and assist in explaining the changes in PUC. These economic components are the seasonally-adjusted unemployment rate (lagged twelve months) and the Consumer Price Index from the Bureau of Labor Statistics, and the "wages and salaries" component of personal income from the National Income and Product Accounts from the Bureau of Economic Analysis. This model subsequently forecasts the expected annual change in average PUC from FY 2011 to FY 2012 for the voucher program on a national basis by incorporating comparable economic variables from the Administration's economic assumptions. For reference, these economic assumptions are described in the FY 2012 Mid-Session Review.

The inflation factor for an individual geographic area is based on the change in the area's Fair Market Rent (FMR) between FY 2011 and FY 2012. These changes in FMR are then scaled such that the voucher-weighted average of all individual area inflation factors is equal to the expected annual change in national PUC from FY 2011 to FY 2012, and also such that no area has a negative factor. HUD subsequently applies these calculated individual area inflation factors to eligible renewal funding for each PHA based on VMS leasing and cost data for the prior calendar year. For the CY 2012 PHA HCV allocation that was announced on March, 1, 2012, HUD used 1.71 percent as the annual change in PUC. When calculated using more recent VMS data through December of 2011 and actual performance of economic indices through the December of 2011, HUD expects this annual change in PUC to be lower.

III. The Use of Inflation Factors

The inflation factors have been developed to account for relative differences in the PUC of vouchers so that HCV funds can be allocated among PHAs. HUD will continue to update the current model with available data in order to assess the expected annual change in PUC and intends to update the methodology for future funding estimates. HUD is also continuing to review and refine the methodology, especially for area differences in the factors, which will be described in future inflation factor notices.

IV. Geographic Areas

Inflation factors based on PUC forecasts are produced for all Class A CPI cities (CPI cities with a population of 1.5 million or more) and for the four Census Regions. They are applied to core-based statistical areas (CBSAs), as defined by the Office of Management and Budget (OMB), according to how much of the CBSA is covered by the CPI city-survey. If more than 75 percent of the CBSA is covered by the CPI city-survey, the inflation factor that is based on that CPI survey is applied to the whole CBSA and to any HUD-defined metropolitan area, called “HUD Metro FMR Area” (HMFA), within that CBSA. If the CBSA is not covered by a CPI city-survey, the CBSA uses the relevant regional CPI factor. Almost all non-metropolitan counties use regional CPI factors. For areas assigned the Census Region CPI factor, both metropolitan and non-metropolitan areas receive the same factor.

The tables showing the Renewal Funding Inflation Factors available electronically from the HUD data information page list the inflation factors for the four Census Regions first, followed by an alphabetical listing of each metropolitan area, beginning with Akron, OH, MSA. The inflation factors use the same OMB metropolitan area definitions, as revised by HUD, that are used in the FY 2012 FMRs.

V. Area Definitions

To make certain that they are referencing the correct inflation factors, PHAs should refer to the Area Definitions Table on the following webpage:

http://www.huduser.org/huduser/datasets/rfif/FY2012/FY2012_AreaDef.pdf. The Area

Definitions Table lists areas in alphabetical order by state, and the associated Census Region is shown next to each state name. If the area where a unit is located is not separately listed, the inflation factor for the Census Region that includes that area is used. In the six New England states, the listings are for counties or parts of counties as defined by towns or cities. Any location in these states that are not specifically listed should use the Northeast Census Region inflation factor.

Puerto Rico and the Virgin Islands use the South Region inflation factors. All areas in Hawaii use the Renewal Funding inflation factors listed next “Hawaii,” in Appendix A which is based on the CPI survey for the Honolulu metropolitan area. The Pacific Islands use the West Region Renewal Funding inflation factor.

VI. Environmental Impact

This Notice involves a statutorily required establishment of a rate or cost determination which does not constitute a development decision affecting the physical condition of specific project areas or building sites. Accordingly, under 24 CFR 50.19(c)(6), this Notice is categorically excluded from environmental review under the National Environmental Policy Act of 1969 (42 U.S.C. 4321).

Dated: April 13, 2012

Raphael W. Bostic, Ph.D.
Assistant Secretary for Policy
Development and Research

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